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FRATERNAL INSURANCE IN THE UNITED STATES.¹

There are in the neighborhood of six hundred fraternal beneficiary societies in the United States, with an aggregate membership of about five millions. Approximately one-half of these societies maintain systems of benefits which are chiefly remedial, and which cannot properly be characterized as systems of insurance. During the year 1899, one of the largest orders providing this kind of benefits expended \$3,119,125.47 in relief work. Yet the organization in question is not a fraternal "insurance" society. It simply does relief work on a grand scale.

Very different in nature are the benefit systems and protective features of the other half of the fraternal system. The societies of this class may engage in relief work similar to that of the other class, but they attempt more and something fundamentally different. They bind themselves by contract to pay a certain sum of money as "relief," "benefit," or "protection," on the occurrence of certain events; such as sickness, disability, death, etc. The important consideration in these cases is the fact that a specific sum of money is to be paid to some beneficiary as soon as certain designated contingencies have arisen. This sum of money is named in the "certificate," together with the name of the beneficiary, the amount of his periodical "contributions," etc. In view of the fact that so many persons connected with fraternal societies object to the use of "old line" terms, it may be well to explain that the writer selected the title of this paper, "*Fraternal Insurance*," after some deliberation. It is his intention to confine this discussion to what

¹ The writer discusses the social functions of Fraternal Beneficiary Societies in a volume edited and published by the Committee of Fifty, entitled "Social Substitutes for the Saloon." He also treats of the general features of the fraternal system in an article published in the *American Journal of Sociology*, for March, 1901.

is expressed in the title ; namely, to *insurance* carried on by *fraternal* societies. Here one is at once met by the objection that fraternal societies, as a class, do not engage in insurance business, and that they are far removed from the material motives of "speculative" insurance companies. The answer to these objections is apparent: Any organization which guarantees the payment of a definite sum of money, under certain circumstances, dependent upon the contingencies of human life, in return for certain contributions, does an *insurance* business. We may call the document relating to this arrangement a "certificate;" the payments made periodically "contributions," "fees," "dues," etc.; the final payment, on the occurrence of the specified contingencies, "benefits;" the whole is nevertheless an *insurance contract*, pure and simple, and the society issuing such a certificate is doing an insurance business, subject to all the laws and principles applicable to insurance in general. This last proposition, long accepted by a few fraternal societies and ignored or bitterly contested by many others, deserves especial emphasis.

The dual nature of fraternal societies has probably been partly responsible for the perpetuation of the fallacy that *insurance* is one thing and that *fraternal insurance* is another and a different thing. The fraternal societies falling within the scope of this essay—one-half of the total number—are *both* fraternities and insurance companies, the fraternal element sometimes overshadowing the beneficiary features, or *vice versa*. It is probable that the cohesive power of numerous societies doing an insurance business would fail were not the fraternal features so potent. In the preservation and extension of the field which the fraternal element has gained, and in the thorough reformation of defective "benefit systems" must lie the future development of the entire fraternal system.

Evidence to show the existence of defective schemes of fraternal insurance is not far to seek. In a circular issued

by one fraternal society the position is maintained that mortality experience cannot be reduced to law! Another attempts to prove that the addition of new members will always keep the average age of the entire membership down to a certain level, and that with additional effort the same can permanently be reduced. How to do this—to follow the argument to its logical conclusion—without ultimately including the population of the world, and then making the populated globe larger, the author does not explain. Still another asserts that “the death of some members soon after joining the order does not weaken the association. The first death in the order is a case in point. Our deceased friend held a \$3,000 contract and had paid only one assessment of \$3. The amount placed in the reserve fund by reason of his death was, therefore, \$897. This was loaned at 5 per cent, and brings in \$44.85 per year. If he had lived, the most he could have paid in twelve assessments would have been \$36 a year. Yet the sum that his death added to the reserve fund is earning more than that, and in time will make good the amount paid to his beneficiaries.” In spite of such gross fallacies this society is “gaining members rapidly” in one of our greatest commonwealths.

It would be a thankless task to rehearse the long tale of failures among fraternal societies. Besides, old line companies and other departments of the mercantile world have had their epidemics of financial ruin. Yet, excepting paper money crazes, history probably affords no parallel to the blind and persistent adhesion which so many people in all parts of the United States have shown to hopelessly unsound schemes of fraternal insurance. An examination of many such schemes leaves upon one the impression that their promoters thought of certain sums of money to be paid as benefits under certain conditions on the one hand; and of certain contributions which it might be convenient to make, on the other; without apparently reflecting upon a possible causal connection between the two. The history of such

organizations is quite generally the same. A rapid increase in membership, possibly also a simultaneous reduction in the average age; a gradual increase in the death rate, accompanied by increasing difficulty in securing new members; an increase in assessments or rates and loss of members, or an attempt to slide along without raising assessments; and finally, financial failure. That some fraternal societies are thoroughly sound, financially, and that others have successfully advanced rates and maintained the integrity of their organizations does not affect this general statement. On the other hand, the very fact that an increase in contributions was found necessary in various societies is *prima facie* evidence that the original scheme was financially unsound.

A late and important failure illustrates this. "At the time of organization no attention was paid to mortality tables. As the members began to grow old and the dues increased it was found that the assessments had been fixed too low to meet the obligations. At various times since the institution of the order it has been found necessary to increase the assessments, but old members agreed to pay the increase because they had reached an age when insurance in a regular life company could no longer be obtained. Another inducement for continuing in spite of the larger assessments was the fact that they had so much money invested in the organization that they felt they could not afford to lose it."

The two following tables further illustrate the same type of organizations. The first column in each table gives the total membership and the second records the number of deaths per 1,000, during successive years:

I.	II.
62,457—12.5	126,128—13.7.
62,574—13.0	131,031—13.2.
61,355—15.4	135,368—14.8.
60,554—16.4	132,674—16.1.
60,076—16.5	127,073—16.1.

I.	II.
56,060—16.1	123,380—16.4.
53,210—18.4	119,785—16.6.
36,028—21.8	115,212—17.7.
21,316—26.8	96,633—19.0.
19,119—30.1	89,679—22.3.
16,894—33.9	82,256—22.2.

The Proceedings of the National Fraternal Congress for 1899 contain the following statistics compiled by one of the representatives. The numbers indicate the rates paid for the same kind of insurance, at the same age, in different societies:

At age 30: 25c., 35c., 37½c., 44c., 45c., 46c., 50c., 55c., 56c., 60c., 62c., 64c., 65c., 69c., 70c., 80c., 82c., 84c., 85c., 90c., 92c., \$1.00, \$1.04, \$1.10, \$1.11, \$1.14, \$1.16, \$1.19, \$1.21, \$1.22, \$1.40.

At age 50: 65c., 75c., 80c., 85c., 90c., \$1.00, \$1.10, \$1.16, \$1.20, \$1.25, \$1.33, \$1.38, \$1.40, \$1.42, \$1.45, \$1.50, \$1.53, \$1.55, \$1.58, \$1.60, \$1.65, \$1.72, \$1.78, \$1.80, \$1.85, \$1.86, \$1.90, \$1.96, \$2.00, \$2.07, \$2.08, \$2.15, \$2.35, \$2.45, \$2.52, \$2.56, \$2.86, \$2.90, \$3.00, \$3.30, \$3.80.

Still more elaborate comparisons are made in the subjoined table, exhibiting, except in columns 1, 11 and 12, level annual rates for \$1,000 of whole life insurance. Column 1 gives ages. Column 2 gives the net annual level premiums based upon the American Experience Table, with 4 per cent interest. Since *net* premiums provide for the so-called reserve and mortality elements only, but not for the loading or expense element, the premium actually collected, gross or office premium, must be considerably in excess of what is indicated in this column. The assumed rate of interest is perhaps too high for a time when a number of leading companies are going over to a 3 per cent basis. This would necessitate another addition to the net premium, for the lower the assumed rate of interest, the higher must the premium be. Column 3 contains the net annual level rate per \$1,000 of

whole life insurance, adopted and recommended by the National Fraternal Congress. Columns 4, 5, 6, 7, 8 and 9 show the rates collected by as many different fraternal societies for \$1,000 of whole life insurance.

Comparative Exhibit of Fraternal and American Experience Tables.

Age.	Level Annual of Insurance.				Premiums for \$1,000.					Probability of Dying.	
	2.†	3.†	4.	5.*	6.	7.	8.*	9.*	10.†	11.	12.
21	12.95	10.62	7.08	4.80	4.80	9.60	8.40	7.56	14.72	.007855	.005085
22	13.24	10.92	7.32	"	"	10.40	"	7.68	15.04	.007906	.005071
23	13.54	11.24	7.68	"	"	"	"	7.80	15.38	.007958	.005107
24	13.87	11.57	7.92	"	"	"	"	7.92	15.74	.008011	.005153
25	14.21	11.92	8.16	"	"	"	"	8.04	16.11	.008065	.005201
26	14.57	12.28	8.40	"	"	"	"	8.16	16.51	.008130	.005259
27	14.95	12.67	8.76	"	"	"	"	8.40	16.92	.008197	.005318
28	15.35	13.08	9.00	"	"	11.20	"	8.64	17.35	.008264	.005388
29	15.77	13.51	9.36	5.40	5.40	"	"	8.88	17.81	.008345	.005469
30	16.21	13.96	9.72	"	"	"	10.08	9.02	18.28	.008427	.005552
31	16.68	14.43	10.08	"	"	"	"	9.26	18.79	.008510	.005647
32	17.18	14.94	10.56	"	"	12.00	"	9.50	19.32	.008607	.005753
33	17.70	15.47	11.04	"	"	"	"	9.74	19.87	.008718	.005872
34	18.25	16.03	11.40	"	6.00	"	"	9.98	20.46	.008831	.006004
35	18.84	16.62	11.76	"	"	12.80	"	10.22	21.08	.008946	.006149
36	19.46	17.24	12.24	"	"	"	"	10.46	21.74	.009089	.006307
37	20.12	17.90	12.72	"	"	"	12.00	10.70	22.43	.009234	.006490
38	20.82	18.60	13.08	6.00	"	"	"	11.06	23.16	.009408	.006698
39	21.57	19.34	13.80	"	6.60	13.60	"	11.42	23.93	.009586	.006921
40	22.35	20.11	14.40	"	"	"	"	12.00	24.75	.009794	.007171
41	23.19	20.93	15.12	"	"	14.40	"	13.20	25.62	.010008	.007448
42	24.08	21.80	15.84	6.60	7.20	"	"	14.40	26.54	.010252	.007766
43	25.03	22.72	16.56	"	"	15.20	"	15.60	27.52	.010517	.008113
44	26.04	23.69	17.28	"	"	"	14.40	16.80	28.56	.010829	.008481
45	27.12	24.72	18.12	"	7.80	"	"	17.00	29.67	.011163	.008867
46	28.27	25.81	18.96	"	8.40	16.80	"	18.20	30.84	.011562	.009287
47	29.50	26.91	19.80	7.20	9.00	"	"	19.40	32.09	.012000	.009754
48	30.81	28.20	20.76	7.80	9.60	17.60	"	20.60	33.43	.012509	.010269
49	32.21	29.51	21.72	8.40	10.20	"	"	21.80	34.85	.013106	.010828
50	33.70	30.98	22.80	9.00	10.80	19.20	"	22.00	36.36	.013781	.011440
51	35.29	32.39	24.00	9.60	11.40	"	"	"	37.97	.014541	.012137
52	36.98	33.97	25.20	10.20	12.00	"	"	"	39.68	.015389	.012870
53	38.79	35.65	26.64	10.80	12.60	"	"	"	41.51	.016333	.013711
54	40.73	37.45	28.08	11.40	13.80	"	"	"	43.46	.017396	.014677
55	42.79	39.36	"	12.00	15.00	"	"	"	45.54	.018571	.015705
56	45.00	41.41	"	12.60	"	"	"	"	47.76	.019885	.016858
57	47.35	43.60	"	13.20	"	"	"	"	50.13	.021335	.018120
58	49.87	45.94	"	13.80	"	"	"	"	52.66	.022936	.019499
59	52.57	48.45	"	14.40	"	"	"	"	55.37	.024720	.021051
60	55.45	51.13	"	15.00	"	"	"	"	58.27	.026693	.022704
61	58.54	"	"	15.60	"	"	"	"	"	.028880	.024634
62	61.84	"	"	16.20	"	"	"	"	"	.031292	.026720
63	65.39	"	"	16.80	"	"	"	"	"	.033943	.029030
64	69.18	"	"	17.40	"	"	"	"	"	.036873	.031571
65	73.25	"	"	18.00	"	"	"	"	"	.040129	.034390

* Secured by multiplying the *monthly* rate by twelve.

† Gross premiums.

‡ Net premiums.

For columns 5, 8 and 9 the annual rate was secured by multiplying the monthly rate by twelve. The product is

consequently too large, for monthly payments must necessarily be greater than one-twelfth of the annual premium to compensate for loss of interest and the lesser losses due to intervening mortality. Annual premiums are always supposed to be paid at the beginning of the year, thus giving the society the benefit of the interest earnings during the year. In case of monthly payments these earnings are appreciably smaller because of the reduced periods of time during which loans can be made. Column 10 exhibits the gross or office level annual premiums charged by a society which aims to provide pure insurance at the lowest possible cost under a mutual system. This table has the sanction of able actuaries. Columns 11 and 12 show the probability of dying according to the American Experience and National Fraternal Congress Tables respectively. In these columns one finds the reason for the differences existing between columns 2 and 3, the probability of dying being correspondingly lower in column 12.

It will be noticed that the premiums in column 3 are approximately one-sixth lower than those in column 2, up to age thirty-five; and that for ages above thirty-five they are only about one-tenth lower. Although the rates of column 4 are generally one-third below those of the Fraternal Congress, they show system and careful calculation, as a comparison with columns 2 and 11 and 12 will readily reveal. Columns 5, 6, 7, 8 and 9 are fair examples of that type of fraternal societies which attempt to make the world believe that accepted mortality tables are thoroughly bad and that *they* can furnish insurance or "protection" at rates from one-half or one-third to one-fourth of "old line" rates. They promise benefits out of all proportion to the contributions made, and sooner or later go into inevitable ruin. Column 10 shows the table of rates prepared by competent actuaries for a society which aims to furnish insurance at the lowest possible cost consistent with safety and efficiency. This society, furthermore, aims to eliminate

the investment features from its insurance, and to restrict its business to the furnishing of mere life protection. If the *relief* work of many fraternal societies may be characterized as remedial, the insurance of this society may be described as *preventive*, just as tontine and semi-tontine policies may be termed *speculative*. Modern life insurance as a whole is primarily preventive; whereas in its beginnings, insurance was chiefly remedial. The transition from the remedial to the preventive form was made possible only by the scientific formulation of accumulated experience, and the transaction of insurance business on the basis of this experience. Accumulated experience eliminated gradually the chance or speculative element which was so prominent in some earlier forms of insurance, such as the maritime or sea loan in connection with which some life underwriting was also done. Although an element of speculation still survives and the investment¹ features of many policies are predominant, modern life insurance is the greatest engine of prevention which the world has known. Failure to recognize the scientific truth that the efficiency of this preventive work depends absolutely upon rigid adherence to health experience has not only brought disaster to thousands of fraternal societies, but has tended to throw the entire fraternal system into disrepute as well as to discredit insurance in every other form.

The fact is, therefore, worthy of emphasis that the National Fraternal Congress has for some time recommended a table of rates (column 3) which is the result of years of work of a standing committee of this body. Like all other scientific tables of rates, this is based upon a mortality table. Only a part of the Fraternal Congress Mortality Table is given in column 12. The committee took into consideration the published experience of old line companies in the United States and several foreign countries, and the

¹ No attempt is here made to discuss the use of this word in insurance terminology.

experience of several of the largest and oldest fraternal societies in this country. The committee was unanimously of the opinion that the Actuaries' and American Experience Tables are too high both from the experience of the old line companies and from that of fraternal societies. Having reached this conclusion, the committee combined the various actual mortality experiences into a new mortality table. The latter was made the basis of the premium rates in column 3; and, in addition, of step-rate and modified step-rate plans. A fraternal society might accept the mortality table without adopting the schedule of rates. For instance, column 3 assumes 4 per cent interest. This is probably too high for the present; hence, a society desiring to assume an interest basis of 3 or $3\frac{1}{2}$ per cent could construct its own tables on the basis of the mortality table, giving it, of course, a *higher* rate of net annual level premiums than those of column 3. The chief significance of the work of this committee on rates lies in the official recognition which has repeatedly been given by fraternalists to this kind of work, and the inference that any fraternal society whose experience is more unfavorable than that assumed in the Fraternal Congress tables is faulty either in plan or management, or both. It is doubtful, however, whether fraternalists as a body sufficiently realize the advantage of *assuming* a more unfavorable mortality rate than their own experience realizes. No one will be inclined to question the desirability if not also the necessity of erring on this side of the line.

Here we are confronted by the question of reserve and surplus. An ideal system of pure life insurance would be one in which the actual experience is identical with that assumed in the mortality table upon which the organization in question bases its tables of premium rates; in which the interest earnings are exactly equal to the assumed rate; in which the expenses of management absorb only the sums set apart as loading; and in which there exist no lapses,

surrender values, etc. It is needless to add that such an ideal can never be fully realized in practice. To base gross premiums or assessments on the lowest possible death rate, a high rate of interest, and the least allowance for expenses of management, and then encounter experience more unfavorable than that which was assumed in estimating premiums, in any one or more of these lines, if continued for a longer or shorter period of time, can result in nothing but failure. To assume too high a rate of mortality, too low a rate of interest, and too heavy an expense in administration, makes premiums unnecessarily high, and results in the accumulation of a large surplus. This is what fraternal societies object to; yet, if an error is made, it should certainly be made in this rather than in the opposite direction; and with wise management, under a participating system, a distribution of these accumulated funds will ultimately be of benefit to the policy-holder. With a relatively small number of exceptions, fraternal insurance societies have erred not only in neglecting scientific mortality tables, but also in assuming experiences much too favorable under present social conditions. On the other hand, their aim to provide pure insurance at the lowest possible cost is a laudable one, and, when accepted business methods are pursued, capable of diffusing great benefits among members. The accumulation of an enormous surplus is considered inconsistent with fraternal principles; yet it should be added that the accumulation of no surplus whatever is probably always (except in "natural" plans) inconsistent with safe business principles, because it signifies either that interest, cost of insurance, and loading, as assumed, are exactly realized in practice, in which case the ideal would have been attained; or, which would be disastrous, that experience is more unfavorable than the assumptions on which the business is based. Prudence would dictate that at least a small margin should be allowed for adverse conditions. So much for the question of a surplus.

Somewhat different in nature but of even greater importance is the question of a reserve. The National Fraternal Congress has almost from the very first included this among the subjects for discussion, and the organization of an *American* Fraternal Congress at Omaha, in October, 1898, making the chief qualification for membership the adoption of a reserve system, is significant in that it shows a well-marked division of opinion among fraternalists on the question of reserves. The National Fraternal Congress has not yet taken steps making it obligatory on the part of its members to adopt a reserve fund; yet, speakers before this body have repeatedly urged the necessity of adopting reserve systems. A number of societies—consistent with the traditional fraternal dislike for old-line terms—have established “safety” or “emergency” funds, which are technically reserve funds. Several prominent fraternalists expressed their approval of both a reserve and a “natural” plan before the National Fraternal Congress of 1900, and similar utterances were made before the same congress during earlier years, notably in 1893, 1894 and 1898. An examination of all the proceedings of this congress gives the reader the impression that there is an unmistakable tendency among fraternal insurance societies toward the reserve or natural premium plans, especially the former.

Disregarding several minor considerations, under a reserve plan the premiums are “level,” *i. e.*, do not vary in amount during the premium-paying period of the policy. Since the “cost” of insurance—*i. e.*, moneys required to meet current mortality losses—increases with increasing age, it follows that under a level premium system the earlier premiums are greater and the later premium payments less than the cost of insurance for the age represented by the policy holder in question. That part of the level premiums which is in excess of the current cost of insurance is improved with interest and “reserved” to counterbalance the deficiencies of later level premiums. In other words, every level premium

embraces an *investment reserve*, in addition to other elements which need not be discussed here, with which future losses are met. Under a "natural" premium plan the policy holder—again disregarding loading, etc.—pays just enough to cover the cost of insurance for his age, and no more. Natural premiums are, consequently, low during youth and increase with advancing years, until finally they become practically prohibitive. Assuming that the premiums are payable at the beginning of the year, it is evident that even under the natural system some reserve exists with which to meet losses during the year. This form of reserve may be termed *insurance reserve*. It is used to meet current losses and is greatest at the very opening of the year, gradually decreasing until at the end of the year it is completely exhausted.

The tables of the Fraternal Congress admit of both the reserve and the natural premium plans. The reserve plan involves the adoption of a level premium table like that given in column 3 of the Comparative Exhibit, and the natural plan is illustrated in the table given below. Both tables of rates are based upon the same mortality tables. The committee on rates of the Fraternal Congress has also prepared other modifications of the natural plan, but this one will suffice for purposes of illustration.

STEP-RATE AND MODIFICATIONS.

1. Ages.	2. Annual.	3. Monthly.	4. Monthly.	5. Monthly.
21-25	\$ 5 11	\$ 45	\$ 60	\$ 75
26-30	5 40	48	63	78
31-35	5 93	52	67	82
36-40	6 71	59	74	89
41-45	8 14	72	87	1 02
46-50	10 25	90	1 05	1 20
51-55	13 82	1 21	1 36	1 51
56-60	19 60	1 72	1 87	2 02
61-	54 01	4 73	3 00	2 50

The report of the committee contains the following explanation of this table: "Column 2 gives the annual rates for the natural step-rate to age 61, and a level rate from that age for the balance of life. Column 3, the monthly rates as derived from the annual rates, with allowance for slight loss due to that method of payment. These two columns are the basis for calculating columns 4 and 5. Column 4 shows a modification of the natural step-rate by means of an accumulation of 15 cents per month, which is used to reduce the level cost from age 61 to \$3.00 per month. Column 5, a similar modification, but with an accumulation of 30 cents per month and a level cost from age 61 of \$2.50 per month. Under either of these plans all members pay the same rates at the same attained ages. The purpose in view in these tables is to have a plan that requires but little detail in its operation, so as to be readily comprehended by the officers of the local lodges." It will be noticed that an "accumulation" is provided for in the rates of columns 4 and 5. This is technically a form of reserve, and in so far as these accumulated funds permit the payment of premiums at advanced ages smaller than the cost of insurance, they perform exactly the same function as those performed by the reserve under the level premium system. The expediency of such an accumulation plan can scarcely be questioned. Fraternal societies have suffered again and again from losses in membership due to an increase in the size and number of assessments, or both. Men seem to object to constantly increasing payments, and in this lies the inherent weakness of the "natural" premium plan. It is thoroughly sound. It cannot fail, but as a method of doing business it has serious faults; and, as long as human nature remains what it has been and still is, the natural plan is open to strong objections. Remembering that out of every thousand fraternal policies ninety-four lapsed during the year 1898, and that in one society nearly 23 per cent dropped out, it is safe to assume that a more general introduction of

the natural premium plan can only result in a continued high rate of lapses. The present high rate of lapses is unquestionably the result of a variety of causes, but it seems improbable that a system of premiums steadily increasing with the advancing years of the policy holder should do anything to check this movement. From a business point of view the adoption of level rates seems most expedient. Furthermore, since fraternal societies avowedly find their constituencies among persons of limited financial resources, and whose earning capacity sometimes decreases rapidly after middle life has been reached, the introduction of limited payment certificates or policies is worth consideration. Not only does the natural plan with its markedly rising cost of insurance in the higher ages levy a severe tax on the earnings of the small policy holder, but the level premiums even may become too burdensome. Fraternal societies strive to furnish, among other benefits, pure whole-life insurance. When this involves *life long* annual or other periodical payments, the policy holder can see no end except death, to the number of his contributions. This objection holds against all whole life, unlimited payments policies; and consequently all insurance organizations must meet this proposition. It seems desirable that a person's heaviest contributions should fall within the most productive years of his life. Both the experience of fraternal societies with increasing assessments and the composition of their membership point to the desirability of the introduction of some limited payment premium systems.

The insurance of women has not yet been highly developed. In the membership of fraternal societies women have increased very rapidly, as the following figures will show:

1892	319	1896	17,037
1893	2,429	1897	24,049
1894	5,450	1898	43,158
1895	9,765	1899	73,864

In his annual report for 1894 the registrar of friendly societies for New Zealand states that "there is a manifest growth of opinion in favor of the formation of branches of friendly societies for women." What proportion of the women membership carries insurance it was impossible to determine. Judging by the expressions of opinion collected by a prominent woman's society, and published in the *Proceedings of the Fraternal Congress* for 1898, much sentiment exists in favor of insuring women at the same rates prevailing among men's societies. The argument was even advanced that, as insurance risks, women are preferable to men. Some old line companies evidently do not accept this as a fact, for they still levy an extra charge on women's policies. The accumulation of experience on the part of women's fraternal societies, or women's branches of fraternal societies, will be of great value in establishing insurance among women on a sounder basis. In view of the fact that there are thousands of women who are economically dependent upon themselves, and who support others dependent upon them, a growth of insurance among this class of women deserves to be encouraged. The fraternal societies of the United States are in a position to do this to a considerable extent.

One of the chief, and doubtless also the most important, causes of the defects in the insurance schemes of beneficiary societies is found in the legislation relating to the same. *Laissez faire* has prevailed altogether too much in the fraternal system. A few simple statutes could have avoided untold mischief in the past. There is still time to protect properly the future.

Students of legislation of the different states of our Union are familiar with the lack of uniformity, inconsistencies and incompleteness of the statutes relating to the same subject. Our insurance laws are no exception. One finds in them all the lack of harmony which exists in some other fields. The laws relating to fraternal societies are even worse. In six states no legislation governing fraternal societies exists. This is

practically true in twenty others, except that in these states fraternal societies are expressly exempted from the provisions of statutes relating to other insurance companies. In two states this exemption is contingent upon the limitation of insurance certificates to five years or less; and, in several others, upon the fact that neither agents nor salaried officers shall be employed. Fifteen states have laws with varying degrees of completeness on the subject, and in four of these the statutes are tolerably complete. Several states, together with the District of Columbia, have adopted the Uniform Bill which the National Fraternal Congress has for some years recommended. How great the need of uniformity really is the following paragraph, copied from the report of the Committee on Statutory Legislation, submitted to the Congress of 1899, strikingly illustrates:

A society of this Congress recently applied for license to do business in Missouri, and it was admitted to that state on its compliance with a rule that required it to change the language of its benefit certificate, so that the amount to be paid to the beneficiary of the deceased member should be a certain stated sum, and that the stated amount should not be qualified by the further provision (which before that time had been in its certificate) that the sum to be so paid should in no event exceed the amount collected from one assessment on each member of the society, in good standing at the time of the death of the member. Another society of this Congress recently applied for license to do business in the State of Massachusetts, and among the reasons assigned by the commissioner of that state why license should not be granted to it was that its benefit certificate was for the payment of a stated amount, *without having the qualifying clause that the amount so paid should in no event exceed one assessment on each member in good standing at the time the member's death should occur.* That which was deemed to be against public policy in Missouri was regarded as a virtue in Massachusetts, and in each instance the society was requested to comply with the settled and well-defined rule of the state to which it made application for license, and to comply with the rule of one would cause a refusal to issue license by the other.

One of the questions contained in a circular addressed by the writer to about six hundred fraternal officers called for

suggestions as to improvements in legislation affecting fraternal beneficiary societies. From the replies received the following are selected as representative. Each number refers to a single report:

1. The establishment of minimum rates; make it impossible for professional promoters to start new societies; prevent insurance departments from discriminating against fraternalists and from charging excessive fees.

2. Establish uniform minimum rates; establish a strong reserve; enact a uniform national law; settle disputes by arbitration and *never* in court, except by mutual agreement.

3. The several states should enact the Uniform Law recommended by the Fraternal Congress; or Congress should assume control of these societies.

4. "The absolute right of each fraternal association to manage its own affairs without dictation from the Insurance Department, provided the association is a member of the National Fraternal Congress."

5. The enactment of a national law; require only one report from each organization to the National Insurance Department. "This would do away with multiplicity of reports, and prevent undue tinkering with the statutes."

6. "To be let alone with the blessings of God. Legislatures have almost annihilated the fraternal idea by making it conform to insurance schemes and requirements alien to co-operation."

7. "I believe that the state insurance departments should exercise supervision over the affairs of every fraternal benefit society which insures its members. I believe the requirements of such supervision should be uniform throughout all the states; but I would not recommend national supervision."

8. A uniform law for all the states, or a national law.

9. "Fraternal insurance will only become of value, lasting benefit, and established on a perfectly sound financial basis, when every state in the Union enacts a general fraternal

law that no order of a fraternal nature, claiming to give fraternal insurance protection shall even be chartered, unless the rates of assessment of such order shall be at least based on the American Mortality Tables (or possibly those of the Fraternal Congress), and that all fraternal orders be compelled by law at once to adopt these rates."

The reports of both the president and the vice-president of the Congress of 1900 contain recommendations along lines indicated in the above extracts. It is there stated that mortality tables can be elaborated with mathematical precision, and that fraternal as well as "commercial" insurance ultimately rest upon the same insurance principles. Both of these officers urge the adoption of the Fraternal Congress rates as a minimum. Two important points of superiority claimed for fraternal insurance are better selection and lower expense rates. The former, it is claimed, is in part due to the "double" selection coincident with the lodge system, under which the medical examination of the applicant is supplemented by the test of meeting the approval of the membership of the lodge. Points which might escape detection by the medical examiner may be known to individual lodge members, and this would be sufficient to reject the risk. The latter—the expense item—is made much of. By confining themselves to *pure* insurance, *i. e.*, insurance free from investment and speculative elements, fraternal societies claim that they can conduct their business with much greater economy. Fraternal officers point with pride to an estimated average expense of \$1.03 for every \$1,000 of insurance in force among the forty-seven societies comprising the Congress, while twenty-eight old-line companies, in their reports to insurance departments, show an expense of \$10.30 per \$1,000, or exactly ten times as large. Because of the many differences existing in the two systems in the kinds of policies written, this comparison of expenses may require modification; yet it must be admitted that the ambition of fraternal societies to furnish pure insurance at the

lowest possible cost to the policy holder is a commendable one, and capable of diffusing the benefits of insurance among much wider circles than has hitherto been possible. Old-line companies have been introducing reforms in their systems of paying commissions to agents; and the desirability of limiting, by statute, the aggregate amount of insurance in force in any one company has been seriously proposed by officials of our giant companies. The possibilities of the fraternal system, when once thoroughly reduced to a sound business basis, are practically unlimited.

The demand for greater uniformity among the laws of the several states or for federal legislation is very strong. Some of the ablest and most prominent fraternal officials favor a federal law and national supervision. This involves constitutional questions concerning which nothing need be said in this connection. It also calls forth diverse opinions with respect to the question of greater centralization of power in the federal government. However, there can be but one opinion as to the desirability of greater uniformity, whether brought about by congressional action or by concerted movements in the different states. The National Fraternal Congress, through its representatives, has for several years been striving to secure the adoption of the Uniform Bill, the chief contents of which can be briefly indicated.

The bill is entitled "An act regulating fraternal beneficiary societies, orders or associations." Section 1 opens with a definition, which is conspicuously wanting in most of the existing laws. This definition is but an elaboration of what were enumerated as the essential characteristics of a fraternal society, at the organization meeting of the Congress in 1886, and which have since been modified and repeated in successive editions of the constitution of the Congress. No society is considered fraternal unless it practices a ritual, has a system of lodges, a representative form of government, pays benefits, and does not conduct its business for profit. At the meeting of the Congress in 1900, a

representative form of government was defined as "one in which there is a corporate meeting of the supreme legislative body, provided for as often as once every three years, to be composed of the officers and, in addition, delegates representing the membership; to which meeting sole power is given to adopt and amend by-laws, and to elect the chief officers of the order, and in which the term of no officer so elected shall be longer than until the next regular session of such governing body." Both the law and the constitution of the Congress distinguish sharply between "assessment" and fraternal societies. A fraternal society may adopt an assessment system of benefits, but it must, in addition, possess all the other fraternal elements; while an assessment society does not necessarily incorporate one or more of the fraternal characteristics. A fraternal society *may* consequently be an assessment society (until after the general adoption of level or step rates), but a pure assessment society is not a fraternal society. In some states special laws have been enacted to govern old line, assessment, and fraternal insurance organizations, respectively.

Any society coming within the description just given, but organized under the laws of another state, may be admitted to a state having adopted the uniform law, by appointing the Insurance Commissioner as its legal representative, and filing its charter, constitution, etc., for which a small fee is charged. Societies of other states, on application, may be examined by the Insurance Commissioner at a cost not to exceed \$50, in certain cases. The president of the last congress, in his annual report, favors a graduation of fees for examination, varying from \$100 to \$500, depending upon the membership of the society examined. That the limitation of fees to be paid to examiners is necessary, the experience of one large order demonstrates. This society uncomplainingly paid \$2,307.40 for an examination made, at its request, by the Insurance Department of one of the states. Not long after, the officers of another state appeared to make a similar

examination. When told of the thorough examination recently made by the officers of a different state, the society was informed that such an examination could not be accepted by the department of this state. A second examination was made, for which the society paid \$1,615.50. Irrespective of the merits of these two examinations, it is evident that in such "damnable iteration" lies a real evil which the law should remedy. A single thorough examination by competent men ought to be sufficient to satisfy every insurance department. The law allows a larger fee for the examination of societies which have a reserve fund,—the Uniform Bill providing that any "fraternal beneficiary association may create, maintain, disburse and apply a reserve or emergency fund in accordance with its constitution or by-laws." The proposed law calls for an annual report to the Commissioner of Insurance, embracing twenty-five items. Such report shall be in lieu of all other reports required by any other law, thus doing away with the objectionable multiplicity of reports. The twenty-five items in the report, taken collectively, are sufficiently comprehensive in their scope to give the officers of the state an intelligent view of the condition of the organization submitting the same. However, the Commissioner of Insurance is authorized to address any additional inquiries to any such organization in relation to its doings or condition, or any other matter connected with its transactions. The incorporation of new societies is provided for; and the employment of paid agents, except in the organization or building up of subordinate bodies, is prohibited. The present laws of several states contain an absurd provision making the employment of a paid agent a chief test of the fraternal character of the organization. It is needless to add that the employment of *any* agent, paid or unpaid, to solicit insurance for an organization which does not provide insurance which is absolutely sound should be forbidden. That provision of the proposed law which makes a contract invalid if the beneficiary agrees

to pay the dues of the member is of doubtful utility, because numerous instances may arise in which such a course of procedure would be beneficial to both parties. The usual penalties are imposed for violations of the law; methods of judicial procedure are described; and all previous laws inconsistent with the act repealed.

The history of the development of fraternal beneficiary societies in the United States is analogous to that of the Friendly Societies of England.¹ There, as here, existed the early abuses—mismanagement, insolvency, dissolution; there, as here, payments were small and out of all proportion to the benefits guaranteed; there, as here, younger members sooner or later refused to join. The custom of levying assessments when the occasion arose—sickness, death—was generally followed. An increase in the number of deaths or in sickness increased the number or size of payments, or both, and societies were disbanded. Out of 38,315 friendly societies founded between 1793 and 1867, 13,935 collapsed, leaving (1867) 4,015 persons, former members of disbanded societies, in public work-houses. Gradually improved systems of accounting were introduced, and attempts made, by means of periodical valuations, to establish the risks as they actually existed, on the one hand, and as they were assumed to be in the contract, on the other. The levy system, once generally prevailing, stands in strong contrast to the premium system which English friendly societies have either adopted or are striving to adopt. The question of premiums had become sufficiently prominent by 1819 to lead to the enactment of a law requiring justices not to confirm any tables unless approved by two actuaries or "persons skilled in calculation." While in practice schoolmasters and small accountants frequently performed the actuarial duties prescribed by the law, this was, nevertheless, a move in the right direction. In 1846, with the creation of a Registrar of Friendly Societies, the old local registration and control by

¹Consult *Baernreither*, "English Associations of Working Men."

justices was swept away. Four years later all registered societies were required to make annual returns under penalty of being disqualified to sue. Annual reports of the registrar began to be published in 1857, one year after the first American report had been issued by the Massachusetts Commissioner of Insurance. Since 1875, English friendly societies have stood on a firm legal foundation. The Friendly Societies' Act of 1875 provides for full publicity. In forms prescribed by law, annual and quinquennial returns are called for ; and quinquennial valuations, by which the financial operations of the societies are subjected to a rigid actuarial test, are made obligatory. Every year the registrar suspends societies because they have failed to send in their valuations as required by law. Both English law and practice have long exerted a firm and continuous pressure to establish the protective features of friendly societies on the basis of insurance principles.

In distant New Zealand similar features of friendly society development may be observed, as an examination of the reports of the registrar will readily reveal. Beginning with the happy-go-lucky levy system, New Zealand societies have gradually taken ground which all financially sound organizations must occupy. Their course of progress is outlined in the following extract :¹ "To sum up the leading features in fifty years of reform is all that space will allow of. Its characters are written in the history of the gradual introduction and growth of financial principles and better government. In the financial department valuation must stand first because of the lessons it has taught and because of other improvements it showed the need for and directed the way to, such as graduation and the formation of funeral funds on equitable principles; while underlying all progress must, of course, be placed the maxim that the benefits promised by the society should not exceed those which the contributions paid for them can legitimately and with

¹*J. Frome-Wilkinson, "Fifty Years of Friendly Society Progress."*

safety carry. In the history also of graduation we have the slaying of the most terrible enemy to a sound financial condition that has ever warred against the efficiency of the friendly society system—the charge of a uniform contribution to members at all ages of entry. To be rid of such a fell disease is like the ejection of an undermining and life-destroying consumption preying upon the vitals till the outwardly fair (to the eyes of the casual observer) fabric falls in hopeless ruins. Significant, too, in its warning is the absolute failure of heavy extra fees for members joining at higher ages to check this evil. The fate that has overtaken the application of the supposed remedy should admonish members that no quack pseudo scientific methods of treatment will do aught but increase rather than alleviate the condition of the patient. . . . Friendly society institutions are rapidly arriving at a crisis in their history when progress will be sadly checked or still firmer ground attained. Societies are beginning to understand that almost continuous sick pay to old and past-work members means a drain on the funds such as has never been paid for. Their case is like that of a city whose water supply is proving to be insufficient for increased and increasing demands for which provision had never been made. There is only one remedy in either case, the increase of supplies. The funds of no society will stand continuous sick pay. The first society that popularizes a sound scheme of superannuation and educates its younger present members and all future initiants to take shares in it, will be the premier friendly society of the future, will never capitulate to the attacks of want and pauperism, but will provide a shelter to the end against the ills industrial life is heir to.”

The National Fraternal Congress has repeatedly been mentioned in this discussion. Without fear of successful contradiction, one may say unhesitatingly that no other factor in the fraternal world to-day approaches in its importance the National Congress. A careful study of the

proceedings of this body will convince the student that from first to last it has stood for enlightened and progressive measures which have long begun to bear fruit in the reforms which have resulted from them.

The idea of such a congress originated in the State of New York, where the local societies had organized a state federation for the promotion of their own interests. In response to a call issued by the Ancient Order of United Workmen, the father of modern fraternalism in the United States, a convention of representatives of fraternal societies was held in Washington, D. C., in November, 1886. This organization session included delegates from seventeen orders with an aggregate membership of 535,000, carrying insurance to the amount of 1,200 millions. The latest Congress, which met in Boston in August, 1900, embraced forty-seven orders with an aggregate membership of 2,668,649, carrying insurance to the amount of 4,021 millions of dollars and having paid over thirty-eight millions in benefits during the year. These statements reflect the magnitude of the interests centred in the National Fraternal Congress. The objects of the Congress, as defined in its constitution, are "declared to be the uniting permanently of all legitimate fraternal benefit societies for the purposes of mutual information, benefit and protection." Representation in the congress is graded according to the membership of the respective societies. Eligibility for membership on the part of a society is contingent upon meeting the requirements of the definition of a fraternal society, contained in the Uniform Bill discussed above, which, in turn, is but a modified statement of the "distinctive features" of a fraternal benefit society as enumerated in a clause of the constitution of the Congress from the time of its organization. Membership in the Congress further involves the payment of an annual fee, varying from thirty-five to one hundred and fifty dollars. The constitution institutes the usual set of officers with customary duties, and establishes seven standing committees dealing with the

constitution and laws, statutory legislation, credentials and finance, statistics and good of the orders, fraternal press, jurisprudence and medical examinations, respectively. The powers and duties of these committees are also defined. Finally, the constitution repudiates "the speculative societies, whose chief aim is to pay sums of money to members during life, without regard to distress or physical disability ;" and declares that "the aims of such societies are entirely opposed to the principles upon which the Fraternal Beneficiary Societies are founded, and by virtue of which they exist." The Congress meets partly in sections, the two chief sections being the medical and that on the fraternal press. The latter, by unifying and uniting the interests of the various fraternal publications, is capable of diffusing the knowledge which is essential for the permanent establishment of a sound understanding and the full recognition of true conditions. The former has been aiming at the improvement of medical selection. The personal element being so important in the fraternal system, greater care and efficiency in the selection of risks reacts favorably upon the personal habits of members. A thorough medical examination as a necessary preliminary for participation in a system of benefits is a valuable lesson in right living. A bureau of information has also been proposed and discussed; and if such a bureau is to be permanently established, it would seem best to make the secretary of the Congress chief of the bureau. Such an arrangement would avoid duplication of reports, etc., and at the same time centralize administrative work sufficiently to enable officers to remain in active touch with every branch of the system. The helpfulness of such a bureau can scarcely be overestimated, for, as a whole, the system is suffering from want of sufficient and accurate information. Not until the accumulated experience of fraternal societies has been scientifically formulated and applied to their financial operations can fraternal insurance be said to have reached the dignity of an economic institution. One

society has adopted the combined experience of four other orders until its own experience may have become sufficiently comprehensive. This is correct in principle, and will tend to banish the grotesque systems of guess-work which at present are altogether too common.

In October, 1898, an *American Fraternal Congress* was organized at Omaha. This congress represented eighteen orders, all of which stood upon the common requirement of a reserve fund. No society without a reserve fund was made eligible. The mere fact of the organization of such a congress shows the division which exists among fraternalists on this question. In view of the steady progress which the National Congress has made toward sound financial operations, the union of all societies into a single congress is to be hoped for; and the adoption of measures which will compel every society to take its place, in full view of the public, either with the unsound societies or with that group which the resolutions of the congress declare sound will probably do more to relieve good societies from the disrepute which reckless orders have brought upon them than any other single step which could be taken. This assumes, of course, that the congress will approve only those plans which can stand the test of actuarial science. Adequate statutory regulations could then easily be made to follow; although more rapid progress could be made were uniform compulsory laws to be enacted in every state of the Union.

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